

### Student Loans 101

#### The Challenge of Paying for College

Getting into the right college is but half the battle. "Paying for College" presents a whole new set of challenges and opportunities. Luckily, if you need help paying for college or for a career school, there are several options you can choose from.

Most student financial aid comes from Federal government programs, which the **US Department of Education's Federal Student Aid (FSA)** office administers. Applying for student aid is **FREE**; that's why the application you use is called the **Free Application for Federal Student Aid (FAFSA)**. You can find this form on the Web at [www.fafsa.ed.gov](http://www.fafsa.ed.gov), or at a college financial aid office or local public library, or by calling the **Federal Student Aid Information Center at 1-800-4-FED-AID**.

#### Federal Student Aid Summary

On the right is a summary of the **U.S. Department of Education's Federal Student Aid (FSA)** programs that will help you pay for school. Check with your school to find out which programs your school participates in.

#### How much can I borrow?

##### Stafford Loans (Direct and FFEL)

Your loan limits depend on what year you are in school, whether you're a dependent student and whether you receive "**subsidized**" or "**unsubsidized**" Stafford Loans. Subsidized Stafford Loan

##### Subsidized Stafford Loan

If you demonstrate financial need, you can borrow a "**subsidized**" FFEL or Direct Loan to cover some or all of that need. For a subsidized loan, the U.S. Department of Education pays the interest while you're in school at least half time, for the first six months after you leave school, and during a period of deferment - a postponement of loan payments.

##### Unsubsidized Stafford Loan

You might be able to receive loan funds beyond your subsidized loan limit or even if you don't have demonstrated financial need. In that case, you'd receive an unsubsidized loan.

**To determine the amount of your unsubsidized loan, your school will use this equation:**

$$\begin{aligned} & \text{Cost of Attendance*} \\ & - \text{Federal Pell Grant (if eligible)} \\ & - \text{Subsidized Stafford Loan (if eligible)} \\ & - \text{Any other financial aid you receive} \\ & = \text{Amount of unsubsidized loan you can receive} \\ & \text{(up to the annual maximum)} \end{aligned}$$

For an unsubsidized loan, you're responsible for the interest from the time the loan is disbursed until it's paid in full. You can pay the interest as you go along. Or, you can allow the interest to accrue (accumulate)—for example, while you're in school—and have the interest added to the principal amount of your loan later. This means the interest will be "**capitalized**". Note that if interest accumulates, the total amount you repay will be higher than if you paid the interest all along.

#### Federal Student Aid Summary

Federal Student Aid Program	Types of Aid	Program Details	Annual Award Amounts
<b>Federal Pell Grant</b>	Grant: does not have to be repaid	Available almost exclusively to undergraduates; all eligible students will receive the Federal Pell Grant amounts they qualify for	\$400 to \$4,050 for 2005-06
<b>Federal Supplemental Educational Opportunity Grant (FSEOG)</b>	Grant: does not have to be repaid	For undergraduates with exceptional financial need; priority is given to Federal Pell Grant recipients; funds depend on availability at school	\$100 to \$4,000
<b>Federal Work-Study</b>	Money is earned while attending school; does not have to be repaid	For undergraduate and graduate students; jobs can be on campus or off campus; students are paid at least minimum wage	No annual minimum or maximum award amounts
<b>Federal Perkins Loan</b>	Loan: must be repaid	5% loans for both undergraduate and graduate students; payment is owed to the school that made the loan	\$4,000 maximum for undergraduate students; \$6,000 maximum for graduate students; no minimum award amount
<b>Subsidized FFEL<sup>1</sup> or Direct<sup>2</sup> Stafford Loan</b>	Loan: must be repaid; you must be at least a <b>half-time</b> student	Subsidized: U.S. Department of Education pays interest while borrower is in school and during grace and deferment periods	\$2,625 to \$8,500, depending on grade level
<b>Unsubsidized FFEL<sup>1</sup> or Direct<sup>2</sup> Stafford Loan</b>	Loan: must be repaid; you must be at least a <b>half-time</b> student	Unsubsidized: Borrower is responsible for interest during life of the loan; financial need not a requirement	\$2,625 to \$18,500, depending on grade level (includes any subsidized amounts received for the same period)
<b>FFEL or Direct PLUS Loan</b>	Loan: must be repaid	Available to parents of dependent undergraduate students enrolled at least <b>half time</b>	Maximum amount is <b>cost of attendance</b> minus any other financial aid the student receives; no minimum award amount

<sup>1</sup> This type of Stafford Loan is from the Federal Family Education Loan (FFEL) Program. The loan is known as a FFEL (or Federal) Stafford Loan.

<sup>2</sup> This type of Stafford Loan is from the William D. Ford Federal Direct Loan Program. The loan is known as a Direct Loan.



## Loan Repayment

Often times the thrill of graduating from college is tempered by the realities of the student loan repayment process. While it's worth every penny, the debt students and parents incur can be both sizable and intimidating.

Loans are borrowed money that must be repaid - with interest. If you're attending school at least half time, you have a period of time after you graduate, leave school, or drop below half-time status before you must begin repayment. This period of time is called a "**grace period**". Please be aware that there is no grace period for the **parent PLUS loan**. This means that parents must begin repaying both principal and interest while the student is still in school. There are various options to loan repayment, including Student Loan Consolidation programs, which can help ease the stress of the repayment process.

### Should I consider Loan Consolidation?

You can consolidate (combine) multiple federal student loans with various repayment schedules into one loan: either a **Federal Family Education Loan (FFEL)** or a Direct Consolidation Loan.

### What are the advantages of Loan Consolidation?

With a consolidation loan, you make just one monthly repayment and your payments will usually be significantly lower. Plus, you can take a longer time to repay (up to 30 years). Also, you will probably pay a lower interest rate than you would on one or more of your existing loans. Parents and students alike can take advantage of a Student Loan Consolidation.

### What kinds of loans can be consolidated?

All of the loans discussed here are eligible for consolidation, and others can be included.

## Student Aid Resources:

**Student Aid on the web:**  
www.studentaid.ed.gov

**Federal Student Aid Information Center (FSAIC):** 1-800-4-FED-AID

**Direct Loan Borrower Services:**  
1-800-848-0917

**Office of Inspector General:** (To report student aid fraud, including identity theft)

**Hotline:** 1-800-MIS-USED

**e-mail:** oig.hotline@ed.gov

**website:** www.ed.gov/misused

# What are the differences in the loan programs?

The chart below shows the most basic loan comparisons.

## Student Loan Comparison Chart

Loan Program	Eligibility	Award Amounts	Interest Rate	Lender/Length of Repayment
<b>Federal Perkins Loans</b>	Undergraduate and graduate students; do not have to be enrolled at least <b>half time</b>	Undergraduate—up to \$4,000 a year (maximum of \$20,000 as an undergraduate)  Graduate—up to \$6,000 a year (maximum of \$40,000, including undergraduate loans)  Amount actually received depends on financial need, amount of other aid, availability of funds at school	5 percent	Lender is your school  Repay your school or its agent  Up to 10 years to repay, depending on the amount owed
<b>FFEL Stafford Loans</b>	Undergraduate and graduate students; must be enrolled at least <b>half time</b>	Depends on grade level in school and dependency status (see <a href="#">chart</a> )  Financial need not necessary	Changes yearly; for 2004-2005 was 3.37 percent for loans in repayment  For those with financial need, government pays interest during school and certain other periods	Lender is a bank, credit union, or other participating lender  Repay the loan holder or its agent  Between 10 and 25 years to repay, depending on amount owed and type of repayment plan selected
<b>Direct Stafford Loans</b>	Same as above	Same as above	Same as above	Lender is the U.S. Department of Education; repay Department  Between 10 and 30 years to repay, depending on amount owed and type of repayment plan selected
<b>FFEL PLUS Loans</b>	Parents of <b>dependent</b> undergraduate students enrolled at least <b>half time</b> ; parents must not have bad credit history	<b>Cost of attendance</b> — Other aid received = Maximum loan amount	Changes yearly; for 2004-2005, was 4.17 percent for loans in repayment; government does not pay interest	Same as for FFEL Stafford Loans above
<b>Direct PLUS Loans</b>	Same as above	Same as above	Same as above	Same as for Direct Stafford loans above, except that <b>Income Contingent Repayment Plan</b> is not an option

Sources: U.S. Department of Education: The Student Guide 2005-2006; www.studentaid.ed.gov; www.loanconsolidation.ed.gov



For more information on this topic, call a Certified Credit Counselor at **1.800.556.1548** or visit our Learning Center at [www.anewhorizon.org](http://www.anewhorizon.org)

